142 FERC ¶ 61,240
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
Cheryl A. LaFleur, and Tony Clark.

Southern Natural Gas Company, L.L.C. Docket No. RP13-596-000

ORDER ACCEPTING TARIFF RECORDS

(Issued March 28, 2013)

1. On February 28, 2013, Southern Natural Gas Company, L.L.C. (Southern) filed tariff records[1] to adjust its fuel retention rates as required by its tariff, to be effective April 1, 2013. Specifically, Southern's filing updates its fuel retention rates under Rate Schedules FT, FT-NN, IT, CSS, ISS and its Liquefiable Transportation Agreements to reflect changes in consumption and to flow through any over- or under-recovery. As discussed below, the Commission accepts the tariff records, effective April 1, 2013.

I. **Background**

2. Section 35 of the General Terms and Conditions (GT&C) of Southern's tariff requires Southern to adjust its fuel retention rates based on actual data for the previous calendar year, including the prior year's over- or under-recovery balance. Under section 35 of the GT&C, fuel retention percentages are determined by dividing the sum of the actual quantity of gas consumed by Southern for company use and lost and unaccounted for gas and the Dth equivalent of the costs of electricity used for Southern's electric compression and the over-recovery or under-recovery amount associated with Southern's transmission facilities during the base period by the quantity of gas delivered during the base period. Specific to electric compressor costs, Southern must calculate a Dth-equivalent by dividing the electric compression costs by an index price for the applicable month, as set forth in Section 14.1 of the General Terms and Conditions of Southern's tariff.

[1] *See* Appendix.

II. Details of the Filing

3. Southern states that for the twelve month period ending December 31, 2012, Southern experienced a cumulative under-recovery of 5,580,807 Dth related to transportation services and a cumulative under-recovery of 306,974 Dth related to storage services. Southern estimates that 3,152,908 Dth of the 5,580,807 Dth of under-recovery is due to a decrease in index prices, which results in a higher equivalent Dth amount required from shippers to cover the actual cost of electricity. Southern states that the transportation electric compression component of the current fuel retention rates reflected a weighted average index gas price of $3.97 for the twelve-months ending December 2011, as the divisor in calculating the equivalent Dth for its fuel retention rates and that the weighted average index gas price for the twelve-month ending December 2012 decreased to $2.74. In addition, Southern states that it also experienced a 12 percent increase in throughput in 2012 which required Southern to use more of its compression, including use of its less efficient compression units in order to maintain service. Finally, Southern notes that last year's fuel retention rates did not go into effect until April 1, 2012, and calculates that an additional 245,393 Dth would have been retained over the three month period.

4. Southern states that the 306,974 Dth related to storage services under-recovery is due to less retained gas between December 2011 and December 2012. Southern notes that there were 81 Bcf of combined injections and withdrawals in 2011, as opposed to 67 Bcf in 2012 which resulted in 163,323 Dth of less retained gas. Southern notes that last year's fuel retention rates did not go into effect until April 1, 2012, and calculates that an additional 75,000 Dth would have been retained over the three month period. Finally, Southern notes that more compression is needed as the pressure in the storage units gets closer to capacity.

III. Public Notice, Interventions, and Protests

5. Public notice of Southern's filing was issued on March 1, 2013. Interventions and protests were due as provided in section 154.210 of the Commission's regulations.[2] Pursuant to Rule 214,[3] all timely filed motions to intervene and any unopposed motions to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties. The filing was protested by Shell Energy

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[2] 18 C.F.R. § 154.210 (2012).

[3] 18 C.F.R. § 385.214 (2012).

North America (US) L.P., and SWEPI, L.P. (collectively, Shell).[4] On March 22, 2013, Southern filed an answer to the protest.[5]

6. Shell notes that Section 14.1(i) of the GT&C of Southern's tariff grants Southern the authority to enter into purchase or sales transactions to balance its system or maintain operational integrity. Shell also argues that while this authority extends to balancing fuel quantities, the tariff does not give Southern the authority to retain any profits from the sales of those fuel quantities.

7. Shell argues that Southern's electric compression cost conversion effectuates a cash-out mechanism, whereby Southern is able to: (a) convert a dollar cost into a Dth-equivalent; (b) receive in-kind fuel from shippers; and then (c) sell that in-kind fuel reimbursement for a higher price than Southern included in the original cost-to-Dth conversion process. Shell contends that Southern's own operational purchase and sales report filed in Docket No. RP13-315-000 demonstrates that Southern retained more in value from the sales of fuel related to electric compression than the value Southern attributed to its electric compression conversion calculation. Shell argues that Commission policy is clear: a pipeline may not use its fuel mechanism as a profit center. Shell urges the Commission to require Southern to fully document the amount of profit it has received for the sale of fuel received as compensation for electric compression and to direct Southern to return these profits to its shippers immediately through a reduction in the proposed fuel retention percentages in this proceeding.

8. In addition, Shell contends that Southern's use of an index price to determine the Dth-equivalent of its electric compression costs is unreasonable. Shell contends that the use of an index price, rather than the price Southern actually received for its gas sales in a given month, over-states the amount of fuel required to compensate Southern for its electric compression costs. Shell further notes that Southern's operational purchase and sales report shows the actual sales prices Southern received for Electric-Dth Fuel related sales was, for the most part, significantly higher than the index price Southern uses to determine the Dth equivalent.

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[4] Nucor Corporation filed comments in support of Shell's protest.

[5] Rule 213 (a)(2) of the Commission's Rules of Practice and Procedure prohibits answers to protests without leave of the decisional authority. (18 C.F.R. § 385.213(a)(2) (2012)). The Commission will grant Southern's request for acceptance of its answer because the answer has aided us in our decision making process.

9. Shell contends that if the actual Electric-Dth sales price were used in lieu of the index price for the months of February, March, June, July, August, and September 2012, the resulting Dth-equivalent quantity would be 5,503,509 Dth, rather than 6,105,346 Dth, an overstatement of 601,837 Dth in just six months. Thus, Shell contends that Southern's methodology, which uses an index price rather than the actual sales price, results in a significant overstatement of the amount of fuel required to provide Southern sufficient fuel to cover its electric compressor costs. Shell argues that Southern should be required to implement a volumetric surcharge to collect its electric compression costs. Shell suggests this would increase transparency in the collection of electric compression costs by passing through only the actual cost, rather than a Dth-equivalent amount of fuel and eliminate the profit potential inherent in the Dth conversion method. In the alternative, Shell asks the Commission to require Southern to use the actual sales price it receives for the sales of gas related to electric compression in the derivation of its Dth-equivalent volumes.

10. In its answer, Southern states that its filing is entirely consistent with section 35 of its GT&C, and that Shell's protest is seeking a change in Southern's existing fuel recovery mechanism. Southern states that it cannot be required to change its existing mechanism, unless Shell satisfies its burden under section 5 of the Natural Gas Act (NGA) to show that the current fuel mechanism is unjust and unreasonable. Southern points out that the settlement of its last general NGA section 4 rate case[6] requires it to file a new section 4 rate case on or before May 31, 2013, and that it is currently engaged in active pre-filing rate case settlement discussions with its customers, including Shell, Southern asserts that Shell's concerns about its fuel recovery mechanism would be more appropriately addressed in the context of the new rate case.

IV. Discussion

11. The Commission "permits a pipeline to adjust its fuel reimbursement percentages in a periodic limited rate filing pursuant to a methodology set forth in the pipeline's tariff."[7] In evaluating the reasonableness of proposed reimbursement percentages, we determine whether the pipeline followed the methodology approved in its tariff and whether its percentages are properly supported. Although a significant increase in a fuel or unaccounted-for percentage may indicate the need for additional examination of the proposed reimbursement percentages, such increases, in themselves, do not render

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[6] *Southern Natural Gas Co.*, 130 FERC ¶ 61,004 (2010).

[7] *ANR Pipeline Co.*, 110 FERC ¶ 61,069, at P 19, *order on reh'g*, 111 FERC ¶ 61,290 (2005) (citing 18 C.F.R. § 154.403) (*ANR*).

reimbursement percentages unjust and unreasonable. In this proceeding Southern has correctly followed its tariff mechanism in calculating its fuel retention rates, therefore, the Commission will approve those tariff records.

12. Shell has raised significant concerns as to whether Southern's recovery of costs for the operation of electric compression via the collection of natural gas fuel from its customers is just and reasonable. As illustrated by the instant filing, fluctuations in the relationship between electric costs and the price of natural gas can increase the volatility of Southern's fuel filings and contribute to a significant under-recovery of fuel on Southern's system. The conversion of electric costs to natural gas volumes also makes Southern's fuel tracker less transparent and more difficult for shippers and the Commission to analyze. The process in which Southern converts the cost of electric compression into dekatherms of gas used also raises concerns regarding opportunities for Southern to profit through the fuel tracker, contrary to Commission policy.[8]

13. As Southern points out, it is required to file a new general section 4 rate case two months from now. That rate case will provide an appropriate forum for Southern and the participants to consider whether its fuel recovery mechanism should be modified to more directly track its monetary cost of purchasing electric power to operate its electric compressors, without complicated and distorting conversions of such monetary costs into dekatherm equivalents.[9] Accordingly, the Commission will not take further action on this issue in this limited section 4 tracking proceeding.

<u>The Commission orders</u>:

The Commission accepts, to be effective April 1, 2013, the tariff records in the Appendix.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

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[8] *ANR*, 110 FERC ¶ 61,069 at P 22.

[9] *Rockies Express Pipeline LLC*, 138 FERC ¶ 61,241, at P 54 (2012).

Appendix

Southern Natural Gas Company, L.L.C.
FERC NGA Gas Tariff
SNG FERC Tariff Volume 1

Effective Date
April 1, 2013

Statement of Rates, FT, 6.0.0, Statement of Rates, FT Settlement, 7.0.0
Statement of Rates, FT-NN, 6.0.0
Statement of Rates, FT-NN Settlement, 6.0.0
Statement of Rates, IT, 6.0.0
Statement of Rates, IT Settlement, 6.0.0
Statement of Rates, CSS, 4.0.0
Statement of Rates, CSS Settlement, 4.0.0
Statement of Rates, ISS, 4.0.0
Statement of Rates, ISS Settlement, 4.0.0A
Statement of Rates, Liquids and Liquefiables, 6.0.0
Statement of Rates, Liquids and Liquefiables Settlement, 6.0.0